

# **Kentucky NSP2 Consortium**

## **Proposal and Request for Funding**

### **Application ID # 424285668**

#### **Program summary**

The 11-member Kentucky NSP2 (KYNSP2) Consortium is comprised of the state's most capable housing producers, both administratively and with respect to program delivery; it includes HOME participating jurisdictions, CDBG entitlement cities, the state's geographically largest community development finance institution, NeighborWorks America® members, and high-production nonprofit housing developers.

Together, members of the KYNSP2 Consortium have analyzed foreclosure trends and local markets to identify the communities and neighborhoods suffering most adversely from the effects of foreclosed and abandoned properties. The Consortium is requesting \$56,804,909 to return more than 900 residential properties to occupancy in severely distressed, destabilized neighborhoods, with 94% of funding targeted to neighborhoods located in high-need areas in metropolitan and micropolitan communities.

Consortium members are coordinating their activities with a broad base of development team members in their communities, ranging from chambers of commerce to Habitat for Humanity chapters to nonprofit and for-profit housing developers. Together, KYNSP2 members have leveraged more than \$55.7 million in private development capital for acquisition and rehabilitation of foreclosed or abandoned properties. Each also has local lenders committed to providing permanent mortgage financing (not included in the leverage amount). Equally importantly, they have 200 homebuyers who are immediately mortgage-ready, another 200 who can be preapproved within six months, and an additional 300 who will be mortgage-ready within 12 months; this represents 700 buyers within the next 12 months for the 950 NSP2-assisted units proposed.

The KYNSP2 Consortium will bring sufficient financial and human capital to bear to achieve stabilization and transformation of more than three dozen specific neighborhoods negatively impacted by foreclosed and abandoned homes. Priority is given to completing the unmet NSP1 capital needs in Louisville – which alone accounts for nearly 25% of all foreclosures in the state; the northern Kentucky portion of the Cincinnati-Middletown MSA, which accounts for an additional 15% of foreclosures; and in Owensboro, Ashland, Hopkinsville, and commuter communities adjacent to Ft. Knox and Ft. Campbell military bases, both of which were initially scheduled for downsizing under the Army's 2005 base realignment and closure program. In the case of Ft. Knox, the Army has done an abrupt about-face and today plans to expand the base far beyond its current operation, causing an influx of more than 13,000 new residents (both military and civilian) in the next 36 months. Nearby communities are plagued with extraordinarily high foreclosure rates due to predatory lending and adjustable-rate mortgages offered to service members from 2000-2006, and financial stress due to repeated deployments to Iraq and Afghanistan.

In formulating its statewide strategy, the KYNSP2 Consortium commissioned studies of 17 separate market areas by an independent, third-party analyst to assess the severity of distress, volume of NSP-eligible foreclosed, abandoned or vacant property, local market absorption rates, and local market affordability gaps. Studies were conducted from June 1-30, 2009, to provide "real time" data. In some areas, markets will recover on their own and so are not included in the Consortium's targeted areas. In others, NSP2 investment is required to fully stabilize and reintegrate heavily-impacted neighborhoods. The KYNSP2 Consortium utilized data from a wide

range of sources (HUD, HMDA, MBA, Federal Reserve) to quantify projected foreclosures over the next 36 months, less market absorption and anticipated unit production under NSP1. It further analyzed subsequent units that can be addressed via NSP2 program income receipts during the 36-month expenditure window. From this analysis, the Consortium concluded that a minimum of \$56.8 million in NSP2 capital is required to stabilize targeted neighborhoods.

Lastly, the Consortium made a key decision regarding use of NSP2 financing: There is little value in demolishing blighted units and building replacement housing in markets that already cannot absorb existing foreclosed residential properties. Only 1% of proposed NSP2 funding will be used for demolition, and less than 20% for redevelopment of vacant properties. The key, at least for Kentucky, is to return empty homes that are in foreclosure and abandoned, and those that are already lender-owned, to productive occupancy.